

**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
NOVEMBER 10, 2022 MEETING MINUTES**

**I. CALL MEETING TO ORDER**

The meeting was called to order at 3:01 p.m.

Mayor Pro Tem Noah Blom announced Chair O'Neill would be arriving late.

**II. ROLL CALL**

**PRESENT:** Mayor Pro Tem Noah Blom, Committee Member Brad Avery, Committee Member William Collopy, Committee Member John Reed, Committee Member Nancy Scarbrough, Committee Member Joe Stapleton

**ABSENT:** Chair Will O'Neill

**STAFF PRESENT:** City Manager Grace K. Leung, Acting Finance Director Michael Gomez, Senior Budget Analyst Amber Haston, Budget Manager Shelby Burguan, Management Fellow Lorig Yaghsezian, Administrative Assistant Amy Byrne, Purchasing and Contracts Administrator Sander Huang, Accounting Manager Trevor Power

**MEMBERS OF THE PUBLIC:** Jim Mosher, Resident, Charles Klobe, Resident

**OTHER ENTITIES:** None

**III. PUBLIC COMMENTS**

**IV. CONSENT CALENDAR**

**A. MINUTES OF OCTOBER 20, 2022**

**Recommended Action:**  
Approve and file.

**MOTION:** Moved to approve the minutes of October 20, 2022 as presented, and seconded. The motion carried 6 ayes – 0 noes, 1 absence (Chair Will O'Neill)

Mayor Pro Tem Blom announced the Year End Budget Results and Surplus Allocation would be heard at end of the agenda.

**V. CURRENT BUSINESS**

**C. INTERNAL AUDIT PROGRAM UPDATE**

**Summary:**  
Bi-monthly progress update on the internal audit program.  
**Recommended Action:**  
Receive and file.

Acting Finance Director Michael Gomez reported the Internal Audit Program began in September 2020. He advised all items from the findings for Procurement Policies have been

addressed. He noted the revised Council Policy F-14 will be discussed later in the agenda. He reported a Cash Handling Draft Policy has been written and is being reviewed by Finance management with the anticipation it is finished in November/December with implementation in January 2023. He advised the Information Technology policy has been shared with Finance and Human Resources for review and comments before becoming effective in December or January. He reported fourteen policies that will be reviewed and revised as part of the Internal Audit Program. He noted two are nearing completion.

Acting Finance Director Gomez reported Moss Adams will be conducting the next round of deep dive audits for the next fiscal year. He advised work has begun and the audits are anticipated to be completed in February 2023 and will return to the Finance Committee for discussion.

Mayor Pro Tem Blom opened public comments.

Jim Mosher noted there were not enough physical agendas available for the meeting and was difficult for the public to follow.

Mayor Pro Tem Blom closed public comments.

The item was received and filed.

City Manager Leung requested Item D be heard next.

#### **D. RECOMMENDED CHANGES TO PURCHASING POLICIES**

**Summary:**

Staff will provide an overview of recommended changes to the City's purchasing policies for the Committee's consideration, in follow-up to the Internal Audit Program report presented to the Committee in January.

**Recommended Action:**

Review the draft revisions to Council Policy F-14, and recommend further changes as needed for submission to the City Council for consideration.

Acting Finance Director Gomez advised there was no presentation for the item but asked for recommendations from the Finance Committee before it moves forward to the City Council. He explained the changes update or improve the language, elaborate or define statements, and ensure consistency between policies. He noted this was a joint effort between the Finance Committee and the City Attorney's Office. He advised there was no recommendation to change any of the authority limits for Council Policy F-14.

Mayor Pro Tem Blom opened public comments.

Mr. Mosher advised Council Policy F-14 states "the City shall not be bound by any contract or amendment thereto unless the same shall be made in writing, approved by the City Council or employee designated by the City Council". He noted it further states that the employee shall be designated by the City Council, the City Clerk, and the City Attorney. He recommended it be clarified that the employee is designated by the City Council and must be signed by the City Clerk and the City Attorney and further recommended it be separated into two sentences.

Mayor Pro Tem Blom closed public comments.

No further action was taken on the item.

#### **A. YEAR END BUDGET RESULTS AND SURPLUS ALLOCATION**

**Summary:**

Staff will provide a presentation regarding the year-end budget results for FY 2021-22 and recommendations for allocation of any year-end budget surplus.

**Recommended Action:**

Review and discuss this report and provide any recommendations for consideration by the City Manager and City Council.

Acting Finance Director Gomez introduced the item.

Budget Manager Shelby Burguan reported the General Fund Revenue Budget was adopted at \$234.1 million and steadily increased projections as new information became available to staff. She advised the total actual for General Fund Year-End Revenues was \$261.5 million which is a positive variance of \$27.4 million above the adopted budget. She noted the high variance is due to the adopted budget being established in spring 2021 with the City exercising caution and conservatism in light of the pandemic.

Budget Manager Burguan reported Property Tax is the City's highest source of revenue and comprises 50% of General Fund revenues. She advised actual property tax revenues came in at \$124.3 million which is \$2.1 million higher than the adopted budget and is due to the increased valuation of properties and timely payments from property owners. She noted the City has a very healthy property tax base with the median home process in June 2022 reaching over \$3 million which is 19% over the calendar year 2020-21.

Budget Manager Burguan reported Sales Tax is the City's second-largest source of revenue and makes up 15% of General Fund revenues. She advised actuals came in at \$46.2 million which is \$5.9 million higher than the adopted budget. She noted the City's highest Sales Tax performing categories include autos and transportation, revenues from brick-and-mortar retail stores, and revenue from restaurants and hotels which have not surpassed pre-pandemic levels. She reported high fuel costs have inflated the sales tax received on fuel sales.

Budget Manager Burguan reported Transient Occupancy Tax (TOT) ended the year at \$26.7 million which is \$7.6 million higher than the adopted budget and \$10 million higher than Fiscal Year 20/21. She explained occupancy has still not reached pre-pandemic levels but room rates are very high. She noted coupling the high room rates with the strong growth in residential TOT resulted in total TOT being a record high for the City.

Budget Manager Burguan reported Other General Fund Revenues came in at \$11.8 million higher than the adopted budget. She advised Property Transfer Tax actuals were \$1.7 million higher than the adopted budget which is due to the high valuations of properties. She reported revenues from fees and charges came in at \$3.8 million more than the adopted budget. She noted that property income revenues exceeded the adopted budget by \$1.7 million due to increased percentage-based rent revenues from the Lido House Hotel. She reported intergovernmental revenues were \$2.8 million above the budget due to adjustments related to Fire Department mutual aid reimbursements and Senate Bill (SB) 2 grant revenues for homeless services.

Budget Manager Burguan reported General Fund Expenditure Budget has been amended numerous times since its adoption. She advised the revised budget is \$12.9 million more than the adopted budget. She explained the growth in the revised budget is the \$5 million additional payment to CalPERS, \$3.1 in budget carryovers from the previous fiscal year, and amendments related to the implementation of various labor agreements. She reported actual year-end expenses came in at \$228 million which represents a budget savings of \$10.9 million. She noted \$4.7 million of that is salary savings due to vacancies. She noted \$4.4 million of encumbrances were carried over into Fiscal Year 22/23.

Committee Member Collopy inquired about the City's total CalPERS contribution. Budget Manager Burguan reported the City's total CalPERS Unfunded Accrued Liability (UAL) was \$40 million and will be \$45 million in Fiscal Year 22/23.

Committee Member Collopy inquired about the City's required UAL payment. Budget Manager Burguan reported the City's required payment is \$30 million and noted it changes every year. She noted the payment over and above the required was approximately \$10 million in Fiscal Year 21/22.

Budget Manager Burguan reported the total Year-End Surplus totals \$24.1 million in unrestricted fund balance. She noted the surplus is after the \$31 million appropriation the City Council approved from the Fiscal Year 20/21 Year-End Surplus.

Acting Finance Director Gomez reported Council Policy F-5 recommends that 50% of surplus funds be allocated to long-term obligations, infrastructure, and capital improvements. He advised staff recommends the \$24.1 million surplus be used to fund the majority of the purchase of the Dove Street property for the future police facility.

City Manager Leung explained that part of the reason for waiving the policy is that there was a structural surplus in the current year which is prefunding the additional pension payment. She advised the potential purchase of property is something the City Council has been negotiating and will be on the City Council agenda on November 15th. She noted the property purchase price is \$30.5 million and because there is private income usage the City cannot obtain tax-exempt bonds.

Committee Member Collopy agreed with the recommendation given the current interest rate environment.

City Manager Leung agreed it makes sense for a long-term strategy for the City and the property.

Committee Member Collopy inquired about Council Policy F-5 and recommended reviewing the policy to understand why the City has such a strong surplus.

Mayor Pro Tem Blom noted he believes the unexpected increases in TOT were not factored into the City's budget which led to the increased surplus.

City Manager Leung noted the City just went through a world-wide pandemic that has never been faced before and noted TOT revenue was projected at \$6 million in Fiscal Year 19/20 and it turned out not to be that bad. She noted staff will take into consideration the new state of the world when it considers its budget forecast.

Committee Member Collopy noted the City's TOT is too low and recommended raising it in the future. He noted residents are not paying for the TOT.

Mayor Pro Tem Blom agreed it may sense during this economic climate to explore raising TOT.

Committee Member Scarbrough inquired about the reasoning behind not putting half of the surplus toward the City's UAL.

Mayor Pro Tem Blom noted that during reasonable times the City would probably put the surplus towards UAL, however, there is no easy way to finance the Dove Street property. He explained that by using the surplus to purchase the property the City will pay much less in the long run.

Committee Member Scarbrough noted the City should not overpay into its UAL for a reason she could not remember.

Committee Member Collopy explained that former Committee Member Larry Tucker was opposed to overpaying into a surplus because he felt there may be impending legislation to tax the surplus. He further explained that the UAL will be paid down in a short period but this is an opportunity to purchase a property that will only go up in value. He noted financing the purchase of the property in a high-interest rate environment will only cost the City more money. He advised the surplus funds will not incur the City any interest payments.

Committee Member Stapleton noted the City can not only be focused on paying down UAL. He agreed the surplus should be evaluated every year but agreed with using the funds for the investment property.

Mayor Pro Tem Blom noted the City would be investing in something that has a reasonable rate of return.

Mayor Pro Tem Blom opened public comments. Seeing none, Mayor Pro Tem Blom closed public comments.

City Manager Leung advised if there were no additional recommendations she would forward the report to City Council.

Committee Member Collopy inquired if this required a unanimous or majority vote by the City Council.

City Manager Leung advised it requires a majority vote.

No further action was taken on the item.

#### **E. FIRST QUARTER BUDGET UPDATE**

**Summary:**

Staff will provide a presentation regarding the year-to-date and projected FY 2022-23 budget performance.

**Recommended Action:**

Review and discuss this report and provide any recommendations for consideration by the City Manager and City Council.

Acting Finance Director Gomez announced there was a change to the First Quarter Report which was redlined and made available to the public yesterday.

Budget Manager Burguan reported the report covers July through September. She advised the General Fund Revenue Budget was adopted at \$265 million with the current revised budget being \$266.9 million. She reported the projection at the end of the first quarter is \$268.3 million with positive variance in property tax, TOT, fee-based classes, and grants.

Budget Manager Burguan reported Property Tax represents 50% of General Fund revenues. She advised the City's consultant projects property tax will come in at \$132 million which is \$900,000 higher than the adopted budget.

Committee Member Collopy inquired if property tax revenue would decrease if home values drop by 20%.

Acting Finance Director Gomez explained that every individual homeowner would have to ask the County to reassess their property value and if that happened then that number would decrease. He noted residents have been successful in having their properties reassessed.

City Manager Leung noted property value reassessments were seen during the Great Recession. She explained that property tax revenues lag so the revenue projections for this year are solid. She noted property tax does not go up or down like TOT or sales tax.

Committee Member Collopy noted property tax revenue did not go down in 2009. City Manager Leung reported last year's property tax revenue was only off by 1.2% and noted the surplus was due to the increase in TOT and sales tax.

Chair O'Neill arrived at 3:39 p.m.

Budget Manager Burguan reported the City saw strong growth in Sales Tax last year as the economy recovered from the pandemic. She noted growth is expected to continue but at a slower pace. She advised the projected revenue for sales tax is \$46.5 million.

Committee Member Collopy inquired if the City had any influence in the 7.75% sales tax.

Chair O'Neill advised the City cannot change the sales tax.

Budget Manager Burguan reported TOT took a dramatic hit during the pandemic. She advised that although current TOT revenues are surpassing pre-pandemic highs occupancy rates have not fully recovered. She noted the lower occupancy rates are offset by high room rates. She reported staff met with and performed an analysis of year-to-date actuals and have come up with an updated projection of \$28.9 million which is \$1.1 million higher than the adopted budget and largely fueled by residential TOT.

Budget Manager Burguan reported all other General Fund Revenues are projected to exceed the adopted budget by \$1.2 million.

Budget Manager Burguan reported General Fund Expenditures have been amended several times and are \$11 million over the adopted amount. She advised the growth is due to the \$5 million additional CalPERS payment, \$4.4 million of budget carryovers, and various labor agreements. She reported the projected year-end expenses are \$255.3 million which is under the revised budget by \$300,000 and are offset by overages in the contracts services category and two new City vehicles.

Budget Manager Burguan reported staff projects ending the current year with \$1.8 million in unrestricted funds and is after the \$24.1 million surplus. She noted staff will continue to monitor economic trends including inflation and consumer spending.

Acting Finance Director Gomez called for comments from the Finance Committee.

Chair O'Neill opened public comments. Seeing none, Chair O'Neill closed public comments.

Committee Member Reed asked for clarification about the surplus.

Budget Manager Burguan provided a detailed explanation of how the surplus was determined to be \$1.8 million.

City Manager Leung explained the surplus is being allocated as part of that transaction.

The item was received and filed.

Chair O'Neill noted there was no Work Plan attached to the agenda.

Acting Finance Director Gomez detailed the Work Plan for January and February 2023. He announced there will be no meeting in December.

Committee Member Collopy inquired why the Harbor Department was being reviewed and not Public Works.

Chair O'Neill explained it was coming back as there was some incomplete data but was happy to bring Public Works in for review.

City Manager Leung noted the Harbor Department will be presenting proposals on staff.

Chair O'Neill opened public comments. Seeing none, Chair O'Neill closed public comments

City Manager Leung announced that Jason Al-Imam will take over as the Finance Director on November 28<sup>th</sup>. She thanked Acting Finance Director Gomez for taking over the role in the interim.

**VI. ADJOURNMENT**

The Finance Committee adjourned at 3:51 p.m.

The agenda for the Regular Meeting was posted November 4, at 3:29 P.M., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

\_\_\_\_\_  
Will O'Neill, Chair  
Finance Committee

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Date

